Inter-Office Memorandum

Reno-Tahoe Airport Authority

Date: October 3, 2012
To: Chairman & Board Members
From: Krys T. Bart, A.A.E., President /CEO
Subject: **RENTAL CAR - ADD-ON FEES AND TAXES**

PURPOSE

The purpose of this report is to provide background information and staff analysis regarding a potential increase in the City of Reno ("City") taxes assessed to rental car customers. This additional tax is being considered to fund the Reno Redevelopment Agency and Aces Ballpark related development.

BACKGROUND

The $50 million stadium for the Reno Aces was partially financed with approximately $30 million of Washoe County issued bonds. This bond issue was backed by a 2% tax established in 2003 on rental car leasing.

In addition, the struggling economy and tight credit markets prevented the stadium developers, a group called Nevada Land, LLC, from completing the first phase of associated development, which included 40,000 square feet of restaurants and nightclub space. The developer asked the City of Reno for assistance. The City agreed to make payments to Nevada Land in an amount up to $2 million annually for 20 years. The money to fund this contribution was to be derived from the increase in property taxes anticipated from the emerging entertainment district.

According to a September 20, 2012 article in the Reno-Gazette Journal, Nevada Land, LLC, has been delinquent on its property taxes since Aces Ballpark opened three years ago. Combined with this year's bill, the company owes local governments and the state a total of $1.6 million, including $1.2 million in back taxes, interest and penalties.

The Authority recently received questions from the City of Reno staff regarding the concession recovery fees and customer facility fee (CFC) related to the leasing and operating on airport property. Both fees are included as separate line items on a customer's bill generated by the rental car companies.

Discussions with the City Manager indicate that an increase in taxes on rental car customers is one option being considered by the City to address this financial issue. A Bill Draft Report has been reserved to further address the possibility of increasing tax on rental cars.

DISCUSSION

To evaluate this proposed solution, the following is an overview of the rental car companies' contractual relationship to the Authority and the current state of add-on fees assessed on and by the rental car companies to customers leasing vehicles.

Rental Car Concession and Facility Leases

Six auto rental companies service the airport through facilities leased at the Reno-Tahoe International Airport (RTIA). These companies are (1) The Hertz Corporation; (2) Avis Budget Car Rental, LLC doing business as Avis and Budget, (3) Vanguard Car Rental USA, LLC doing business as Alamo and National; (4) DTG Operations, Inc. doing business as Dollar and Thrifty; (5) Enterprise Leasing Company- West, LLC; and (6) Simply Wheelz, LLC doing business as Advantage.

All of these companies have "check in" counters located in the bag claim area of the Terminal Building. In addition, all companies, except Simply Wheelz (Advantage), also qualified to lease the following: (1) ready/return parking, (2) a lane in the quick turnaround ("QTA") building and associated parking; and (3) a service facility and associated vehicle storage located away from the terminal on airport property. The ready/return parking spaces ("Ready/Return Premises") are conveniently located in the Parking Structure, across from the Terminal; the QTA building and associated vehicle parking, which provides efficient fueling and car wash services, are located immediately north of the Parking structure; and the Service/ Storage Facilities are located south of the Terminal Building.

Concession revenue from the rental car companies is budgeted at $6,137,300 for FY 2012-13. This amount is based on the greater of 10% of gross receipts derived by the rental car companies or a Minimum Annual Guarantees (MAG). The current agreement, which started on July 1, 2010, established the first year MAG at $5,076,486. After the initial first year, the MAG will be the greater of the first year bid or 85% of revenue paid to Authority for the prior year. This concession represents approximately 14% of the Airport's total budgeted operating revenues. The arrangement with rental car companies is an industry standard at airports.

The concession revenue paid to the Authority is passed through to rental car customers as a concession recovery fee and is shown as a separate line item on a customer's bill at the rate of 11.11%. With all gross revenues derived from a customer treated as gross revenues under the Authority concession agreement, this percentage is derived from 10% of gross sales plus (10% on the 10% =1%) plus (10% on 1% = 0.1%) plus (10% on 0.1% = 0.01%) or 11.11%.

In addition, the rental car company's pay rent on all facilities under lease including the check-in counter, ready/return parking, the QTA facility, and the service/storage facilities. In the FY 2012-13 Budget, this revenue is estimated to generate approximately $2.25 million.

Combined with concession fee revenue, the rental car companies remit approximately $8.39 million of non-airline revenue to the Authority annually. This represents 19% of the Authority's total operating revenue. With virtually no debt service associated with the facilities, this revenue source generates significantly more net cash flow than public parking, the largest single source of non-airline revenue.

Below is a table that compares these two revenue streams after payment of estimated operating expenses and debt service.

FY 2012-13 Budget

	Rental Car	Public Parking
Concession Revenue	$ 6,137,300	$ --
Facility Rents	2,248,400	--
Public Parking Revenue	--	8,393,600
Total Revenue	$ 8,385,700	$ 8,393,600
Less: Operating Expenses	(400,000)	(1,215,900)
Less: Debt Service (a)	(294,000)	(2,229,900)
Net Revenue	$ 7,691,700	$ 4,947,800

(a) Debt Service reflects 10.4% of total parking garage debt service associated with 248 ready/return spaces allocated to rental car operations out of a total of 2,372 spaces.

With airline revenue established on a cost recovery basis, net rental car revenue is the single most important source of cash flow available to the Authority. Please see attached Exhibit A - FY 2012-13 breakdown of operating revenue by source.

Current Add-on Fees and Taxes

Many travelers who rent a car are often shocked and surprised by the actual cost of leasing a vehicle as compared to the daily base rental rate quoted by the company. At RTIA, a rental car customer faces the following add-on fees and taxes:

1. RTAA Concession Recovery Fee of 11.11% of Gross Sales – This represent recovery of concession revenue rent payments to the Authority similar to food and beverage and retail tenants. Payment of concession revenue to the Authority represents the compensation for the opportunity to have direct and immediate access to 3.9 million passengers a year at our facilities. The rental car companies are unique in that they pass through the concession payment to the Authority as a separate fee on its bill instead of incorporating it into the price on the product. This practice is not established by or condoned by the Authority but has become standard practice by the rental car companies.

2. RTAA Customer Facility Charge – $1.25 per rental car transaction day – This charge, adopted by the Board of Trustees in July 2012, represents a fee to fund the on-going maintenance and capital improvement needs of the Quick Turn-Around (QTA) and Service/Storage facilities leased to the rental car industry. This fee was requested and strongly support by the rental car companies operating at RTIA.

3. Washoe County Stadium Tax – 2% of Gross Sales – NRS 244A.810. This tax must be used solely to pay the costs to acquire, improve, equip, operate and maintain within the county a minor league baseball stadium project, or to pay the principal of, interest on bonds issued to construct the stadium.

4. State of Nevada Government Services Fee – 6% of Gross Sales **-** NRS 482.313. This tax is deposited into the State General Fund for general governmental purposes.

5. State of Nevada License and Regulatory Recovery Fee – 4% of Gross Sales - NRS 482.313. This tax is collected from the rental car customer to pay for vehicle licensing fees and associated taxes.

6. State of Nevada Sales Taxes – 7.75% of Gross Sales – This sales tax is collected by the State and allocated to fund state, school district, county, city and special improvement districts operations.

On a typical daily rental of $60 per day for a compact car at RTIA, excluding insurance and additional equipment fees, the add-on fees are estimated to add an additional $24 to the cost of renting a car. The add-on fees and taxes are approximately 40% of the base rental rate.

Rental Car Market Survey – Twenty One (21) Airports

To evaluate the level of add-on fees assessed on customers at RTIA as compared to other western and comparable airports, Authority staff completed an internet survey of twenty-two (22) airport rental car markets.

To ensure consistency, a standard rental transaction was established. The following information was used as the base line transaction:

Dates:	Wednesday, Oct 17 to Thursday, Oct 18
Company:	Dollar Rent-a-Car
Auto Type:	Compact – Ford Focus
Pick Up and Drop Off:	12:00 p.m.

Several web sites provided both the base rental rate and the estimated add-on fees in each market. Staff decided to use www.smartertravel.com and accessed two associated sites - rentalcars.com and carrentals.com. The lowest daily base rate for this sample transaction was also confirmed by using Dollar Rent a Car's website of www.dollar.com. The add-on fees assessed by Dollar are not disclosed on their website.

This survey indicated that both the base daily rate and the overall add-on fees at RTIA are near the average of the airports surveyed. See Exhibit B and C. However, a closer look at the details show an interesting divergence between the airport related fees versus government taxes.

Overall, all airports surveyed had a concession recovery fee with sixteen (16) airports or approximately 73% collecting a rate of 11.11%. At the remaining six airports, a 10% fee was collected at five airports with only Ontario, CA assessing a 9.75% concession recover fee.

When this concession recovery fee was combined with the Authority customer facility charge (CFC) of $1.25 per transaction-day, RTIA was the fourth (4th) lowest airport in the level of fees assessed directly related to operations at the Airport. This is consistent with the survey results presented to the Board of Trustees in its review of the proposed CFC of $1.25 per transaction day approved in July 2012. Please see Exhibit D.

In contrast, the add-on taxes collected for other State and local governments tells a different story. The taxes collected for other governments at RTIA were fifth (5^{th}) highest compared to the other twenty-two airports. On the sample transaction, the tax burden by the other Nevada government agencies was approximately $16.00 per day. This compares with a range of between $11.50 to $13.50 per day assessed by our nearest competition in Las Vegas, Sacramento, and the Bay area airports, excluding San Francisco International at $14.75. Please see Exhibit E.

The combination of low airport related recovery fees and high taxes imposed by the State and local governments result in the overall average rating. In effect, the Authority, by keeping its fees low, is allowing other local governments to charge higher than average taxes without a noticeable disparity with other markets.

Staff Concerns

With rental car concession and facility revenues such a critical component of the Authority's overall revenue picture, any additional cost to customers that may lower overall rental car demand is a concern. With the Authority deriving its revenue based on gross sales, rental car price increases that make it less affordable to travel, not only hurts local businesses dependent upon tourism, but also effects our financial position.

Recently, San Mateo County, home of San Francisco International Airport (SFO), imposed a significant increase in rental car taxes as a means to address their financial issues. The San Mateo County Board of Supervisors proposed two ballot measures that would add a 2.5% tax on rental cars and increase the occupancy tax paid on hotel rooms from 10% to 12%. Of the two ballot measures, only the rental car tax increase was approved by the slimmest of margins on June 5, 2012.

In advance of this election, a May 24, 2012 analysis completed by Rockport Analytics evaluated the impact of the San Mateo County tax increase and reached the following conclusions:

- The proposed tax hikes will effectively raise the price that consumers pay to rent a car. The degree to which demand will be impacted depends on how price sensitive consumers are with respect to these goods and services, or in other words, their price elasticity.

- The proposed tax increase on rental car businesses was estimated to lead to an effective increase of 1.65% on the average price of a rental car at SFO. This price increase was estimated to decrease annual consumer demand by 104,800 daily car rentals and lower rental car revenue by $3.7 million.

- In addition to the direct revenue offsets due to a decrease in demand for rental cars in San Mateo County, there are additional impacts that would impact San Mateo County's bottom line.

- The first of these effects would be lower spending on ancillary goods and services. For example, would-be travelers to San Mateo County who decide to shorten their trip, cancel

their trip, or stay in another part of the Bay Area would likely have spent money on other goods and services within the county such as restaurant meals, retail, and entertainment.

With State and other local government taxes on rental cars already high at Reno-Tahoe International Airport, a step to further increase the tax burden to rental car customers is not as pain-free a solution as often represented. While it primarily affects people who do not live in Washoe County, any reduction in demand or duration of leasing negatively impacts the rental car companies and the Authority.

In addition, any reduction of visitors to our region and lower spending on ancillary goods and services will negatively impact local businesses. Specifically, the ski and resort areas in the Lake Tahoe region and all tourism destinations outside of the downtown area, local businesses dependent upon visitors that use rental car transportation, will be particularly impacted.

While a tax increase may address the immediate City financial issue associated with the Aces Ballpark development, the question is should it be solved by rental car customers.

KTB/rgg/jo